VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Vancouver Housing Bubble?

The Vancouver housing market is a significant driver of the local economy. Its resiliency, particularly in the face of weak provincial economies is evidence of its stalwartness. Nevertheless, because so much of our wealth is tied up in the homes we live in, market swings in either direction can elicit concern for household security. Recent strong performance in both the resale and new housing markets has led to some question whether or not a housing bubble exists in Vancouver, leading to fears of an imminent market correction. There are any number of factors that are evidence of a housing bubble. But there are two things that are necessary and without which a housing bubble could not exist. They are rapidly rising prices and potential or existing high inventory levels.

Home prices in Vancouverhave trended up over the past year. In fact, the average MLS single detached home price in Vancouver will climb 7 per cent to $394,000 in 2002. However, this is far from any speculatory run-up characteristic of a housing bubble. Rather, it is the result of low mortgage rates, pent-up demand, and relatively low listing inventories. This year's price gains are modest compared to the rapid gains preceding the recessions of the early nineteen-eighties and nineteen-nineties. Inventory levels of both new and resale homes has remained below levels needed for a balanced market all year. Only now are listing levels rising to the point where sellers market conditions may level in favour of a balanced market. Moreover, inventory levels of new homes are at historic lows and most of the units now under construction have already been spoken for - hardly cause for concern. All evidence points to a robust Vancouver housing market in 2003, and no sign of a housing bubble.

Fall 2002

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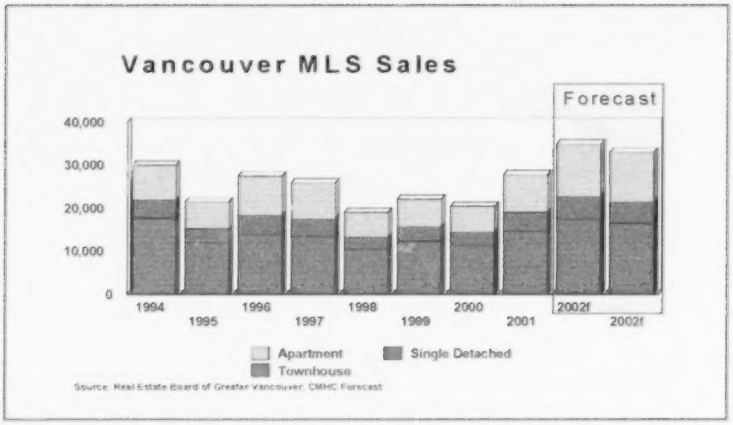
Vancouver MLS Price Change

Avg MLS Price % Annual Change
Source:REBGV, CMHC

CMHC SCHL

HOME TO CANADIANS
Canada

Resale Market



More homes are being sold in Greater Vancouver* this year than any year since 1992. Ten years ago, rapid population growth drove Vancouver MLS sales to new highs. Today, pent-up demand and forty-year low mortgage rates have Vancouver households shopping for homes in a big way. A total of 35,000 MLS sales are expected for Greater Vancouver in 2002, up 25 per cent from one year ago. This activity is echoed in the Fraser Valley** where MLS sales will rise 29 per cent over 2001.

Higher residential density closer to the urban core explains why two-thirds of Fraser Valley sales are of single detached homes, whereas in Greater Vancouver, only half the sales are of this home type. A total of 17,500 single detached homes will change hands in Greater Vancouver this year, up 19 per cent over 2001. In the Fraser Valley, single detached sales will rise 30 per cent this year to 10,300 units. Overall, across the Lower Mainland, 27,800 single detached sales are expected for 2002, up 23 per cent or 5,134 sales from 2001.

Townhouse sales in Greater Vancouver will rise 19 per cent this year to 5,200 units, the same rate of growth as single detached sales. Given the high cost of single detached homes, the trend toward pedestrian landscapes, and a rapidly declining land supply, townhouses offer a median between ground oriented single detached homes and high-rise living. It is no coincidence that both young families as well as seniors find that townhouse living provides the best accommodation for their needs.

It is not surprising that low mortgage rates had the most significant impact on first time buyers, and by extension the starter home market. More than 12,000 apartments will be purchased in Greater Vancouver this year, up nearly 40 per cent from 2001. Vacancy rates in Greater Vancouver fell below 1 per cent in many areas. The lack of available rental apartments has meant compromises in terms of location, size, quality, and amenity for many households. Combine this with an average Vancouver monthly mortgage payment now approaching the asking rents of many buildings, and there is tremendous incentive to enter the ownership market.

All of this buying activity had the predictable effect of reducing listing inventories. Moreover, a longer than usual winter weather pattern postponed the typical spring increase in listings. As a result, the sales to new listings ratio crested 100 per cent in the first few months of the year. Such strong seller's market conditions led to inevitable price gains. Rather than being speculatory, the price gains were a result of low listing inventories in a market driven by pent-up demand and low mortgage rates. With the sales to new listings ratio now approaching more balanced market conditions, price levels are expected rise at a moderate rate through next year.

Average MLS prices in Vancouver are notoriously high. During the third quarter of 2002, the average Greater Vancouver MLS price was $303,000, the highest in the country. By the end of 2002, the average single detached MLS price in Greater Vancouver will rise almost 7 per cent to $394,000. Townhouse prices will also increase 7 per cent to $248,000. Apartment units will post the largest gains

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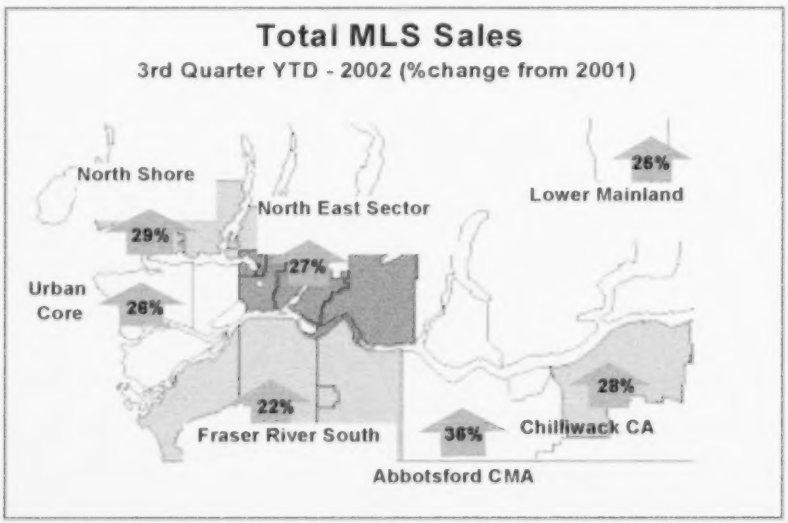
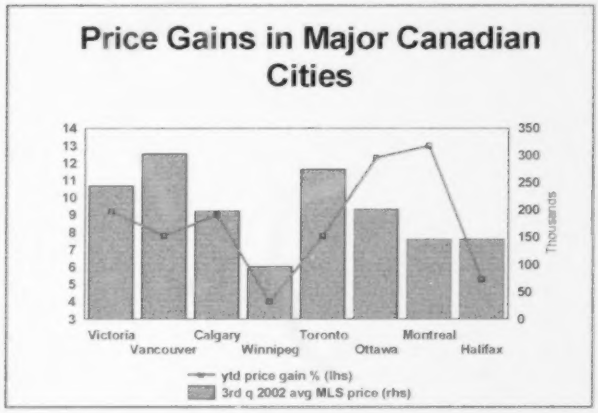


in percentage terms, climbing nearly 11 per cent to $196,000 this year. Not only were starter apartment units targeted by first-time buyers, but local investors, too, got into the action. Many small investors found that they could achieve a positive cash flow because of the low cost of financing.

Looking forward, MLS Sales across Greater Vancouver are expected to remain strong in 2003, with 33,000 units forecast to be sold. Although sales will decline 5 per cent over 2002, sales activity will remain near ten year highs. Single detached and apartment condominium sales will move down 6 per cent in 2003 to 16,500 and 11,550 units sales respectively. A similar result will occur in the Fraser Valley, where sales will remain strong by historic standards, but edge down over 2002. Single detached sales in the Fraser Valley will move down 4 per cent to 9,900 units, while multiple sales will edge down 6 per cent to 5,000 units.

After posting healthy gains in 2002, average MLS prices will slow their rate of ascent to between two and three percent next year. While sales will remain brisk, additional supply from new construction and a return to more normal listing activity will move the market into balanced conditions. The average MLS single detached price will reach $402,000 in 2003, up 2 per cent from 2002. Average townhouse price is expected to rise nearly 3 per cent to $255,000, while the average condominium apartment price will edge up 2.6 per cent to $201,000.

* Real Estate Board of Greater Vancouver area
** Fraser Valley Real Estate Board area



Mortgage Rate Outlook

With the decline in the equity markets during the summer, bond markets advanced contributing to the downward pressure on mortgage rates. In early November, the chartered banks again reduced their posted rates. The one-year rate declined to 4.80 per cent, the three-year rate to 5.90 per cent, and the five-year rate fell to 6.70 per cent. Slower economic growth at home and south of the border will keep mortgage rates low over the next several months. However, concerns over an accelerating pace of economic growth and inflation will lead to a less relaxed monetary policy and will push up bond yields and mortgage rates by the second half of 2003. While open and variable rate mortgages generally track lenders' prime rate, fixed rate mortgages move in tandem with the bond market.

Mortgage rates will continue to remain low by historical standards. The one-year closed mortgage rate is forecast to be in the 4.50-7.00 per cent range over the next fourteen months. The three and five-year term mortgage rates will be in the 5.50-8.50 per cent ranges, respectively, for the rest of this year and next. However, risks to the forecast include a slower than expected recovery in the US economy and further volatility in the capital markets, which could result in mortgage rates moving outside the forecast range.

Vancouver home buyers will benefit from mortgage rates remaining low at least until the summer of 2003. However, rising rates during the second half of the year, albeit still at historic low levels, is not bad news for housing markets. Granted, a few potential home buyers right on the qualifying margin will be negatively affected. However, a gradual rate increase is a signal that the North American economy is strengthening, firms are becoming more profitable,

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New Home Market

New home builders in Vancouver have struggled to keep pace with demand. Home buyers bolted out of the gate at the beginning of the year, catching many builders by surprise. The engine of pent-up demand fuelled by historically low interest rates could not be slowed, even in the face of a general economic malaise south of the border. The inventories of both new and resale homes were significantly drawn down, and are only now beginning the come back.

A total of 12,800 housing starts are expected in the Vancouver CMA for 2002, up 18 per cent over 2001. Single detached homes account for the largest increase, projected to climb 48 per cent to 5,200 units. Since single detached homes have the shortest pre-development period, builders specializing in this home type were first to respond to demand. This fact is reflected in the distribution of residential construction activity across the Lower Mainland. Suburban locations like Abbotsford and the Langleys have posted the most significant third quarter year-to-date percentage gains in housing starts, 107 and 220 per cent respectively. A larger land supply, particularly of rural greenfield sites, gives these areas the edge in single detached construction.

In the City of Vancouver, the reverse is true. Third Quarter year-to-date housing starts are down 24 per cent over 2001. Multiple construction represents 80 per cent of total City of Vancouver housing starts. Fewer housing starts during the first three quarters is the product of substantially longer pre-development periods for large condominium projects. Many large multiple projects envisioned during the first few months of the year are just now beginning construction. Multiple construction across the Vancouver CMA was down 3.5 per cent at the end of September compared to 2001. Expect a marginal year over year gain in multiple activity by the end of 2002.

During 2001 a threefold increase in the number of private rental starts throughout the Vancouver CMA contributed to a 45 per cent rise in multiple starts in the year. In 2002, just a fraction of the number of private rental starts achieved last year is expected to materialize. This means that condominium starts must increase 12 per cent this year for total multiple starts just to match 2001 totals. One final impediment is land supply. The amount of developable land in the downtown core is rapidly diminishing. In spite of significant household demand, a dwindling supply of development sites restricts residential construction and puts upward pressure on prices.

Long lag periods between the inception of large condominium projects and their completion makes market timing problematic. Weak demand in the year 2000 and leading into 2001 shelved many development plans, while mixed signals in the economy and September eleventh created uncertainty right into last winter. As a result, strong demand in the fourth quarter of 2001 and the first quarter of 2002 absorbed most of the available inventory of new condominiums. The lack of condominium inventory, particularly downtown, remains evident today.

The supply of condominium apartments complete and unoccupied in the Vancouver CMA has declined from 2,520 units in September 1999 to just 225 units in September 2002. During this same period the vacant inventory of townhouses fell from 418 to just 73 units, with the single detached vacant inventory falling from 553 to 266 units. In fact, there was just one new condominium apartment complete and unoccupied in the entire Burrard Peninsula by the end of September.

Low inventories are a signal to builders and they are getting the message. Homes under construction are up in

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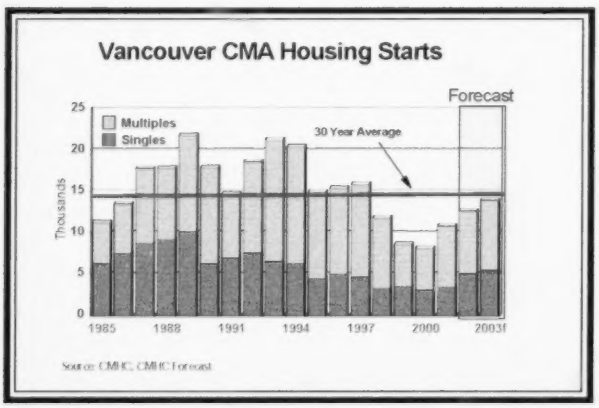
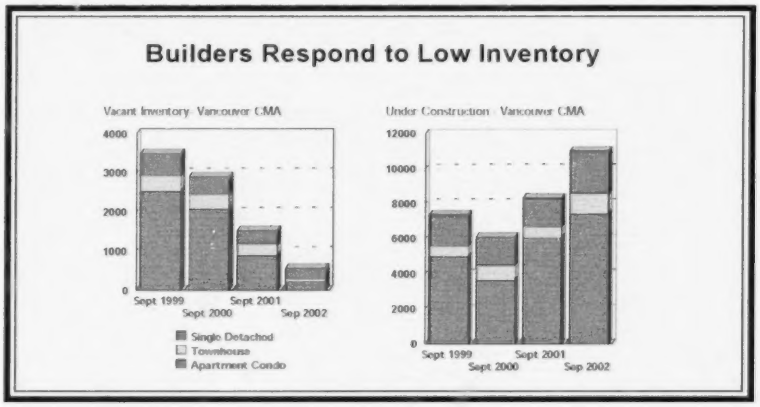
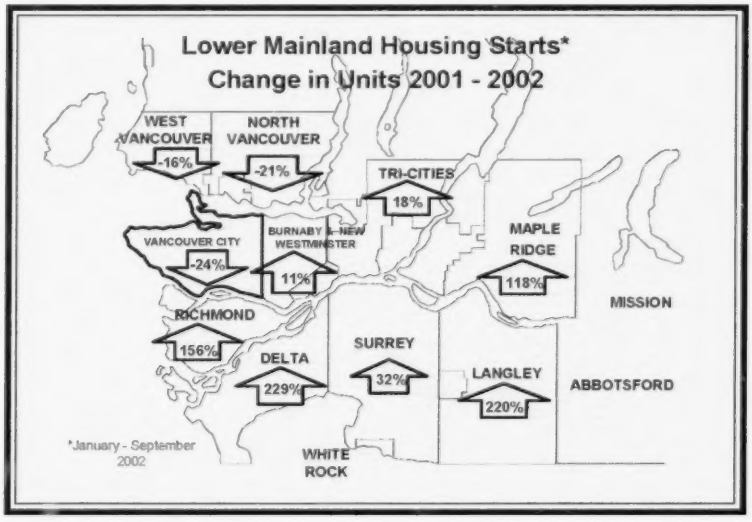


all product types. As of the end of September, 2,396 Single detached homes, 1,190 townhouses, and 7,404 apartment condominiums were under construction, up 48, 86, and 22 per cent respectively over the same period last year. However, while there have been significant increases in units under construction, it does not point to any future inventory glut. The majority of new apartment condominiums under construction were already pre-sold in the fervent spring market. Moreover, the structure of the new single detached homebuilding has changed substantially over the last two decades. Today, homes built on speculation are less common than they used to be. Custom homebuilding is more the norm, with large home builders taking orders based on show homes and past construction. This means that most single detached homes under construction today are technically already sold.

Total housing starts in the Vancouver CMA are forecast to rise a further 9 per cent in 2003, to 14,000 units. Single detached starts are expected to rise 6 per cent to 5,500 units, while multiple starts will gain momentum over this year by climbing 12 per cent to 8,500 units. In the Abbotsford CMA, total starts will grow by nearly 140 per cent to 1,000 units this year, on the strength of a rebound in multiple construction. Abbotsford CMA single detached starts will rise 36 per cent by the end of the year, and a further 4 per cent in 2003. A total of 1,030 housing starts are forecast for the Abbotsford CMA in 2003, up 3 per cent over this year.

In addition to the so-called soft cost associated with fees, levies, and taxes on new home construction, new home prices are being affected by the rising cost of land associated with a constrained land supply, and higher labour costs or higher costs due to the lack of available skilled labour. The price of a new single detached home in the Vancouver CMA will rise about 2 per cent this year, with average new apartment prices will climbing nearly 5 per cent. The average new townhouse price will jump 10 per cent this year, reflecting an increasing concentration on the adult lifestyle market. The rate of acceleration will ease in 2003 with average prices climbing 1.5 - 2.0 per cent across most housing types.





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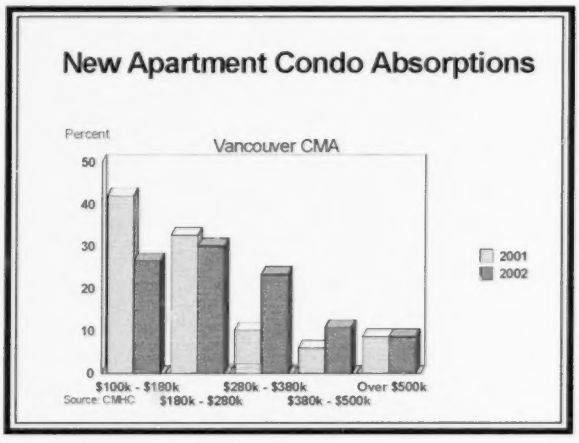
Niche Markets: Luxury Condominiums

New condominiums in Vancouver are no longer just targeted to first time buyers looking for starter homes. High density living now evokes a certain cache. Today, Vancouver living provides the critical mass of people, entertainment, shopping, culture, recreation, and spectacle that the world's most beloved cities enjoy. This has magnetized the downtown core of Vancouver to a cross section of households previously aligned with suburban living.

Convention holds that condominiums will be preferred by young households seeking an affordable product. However, fully 30 per cent of prospective condominium buyers are between the age of 45 and 54. Historically, far fewer in this age group would be condominium buyers. Instead they used to overwhelmingly prefer large single detached homes in suburban locations. The attraction of robust city living combined with increasingly long commuting times, has created a demand for larger, full amenitied condominiums in preferred locations.

Developers, for their part, have responded to the influx of well healed suburbanites to the city. More luxury condominiums are being built today than ever before. Just in the past year absorptions of modestly priced condominium apartments has declined in favour of more luxurious abodes, up to $500,000 in price. In fact, owing in part to favourable exchange rates, the number of of million dollar new condominiums purchased in Vancouver had more than doubled, up from 41 units in 2001 to 91 units by the end of September. This trend in spacious, amenity laden apartment condominiums will continue as baby boomers age and the attraction of city life grows.



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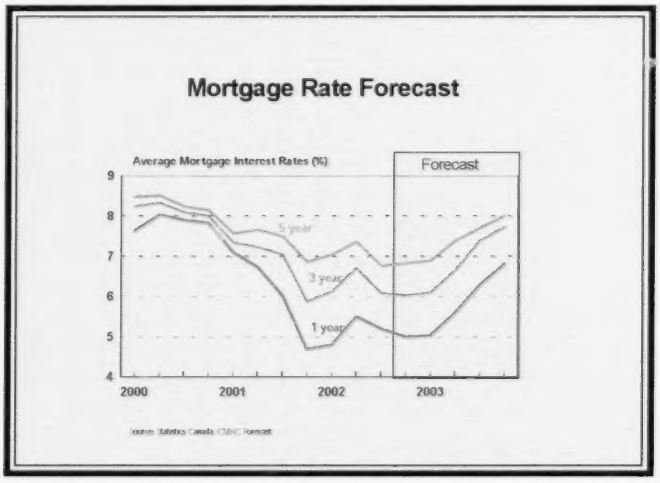
and investors are switching out of bonds and into equities in anticipation of higher yields. A stronger US economy means greater demand for BC products and services, and higher employment growth, particular in full time jobs. This translates into continued strong demand for Vancouver housing.



Economic Overview

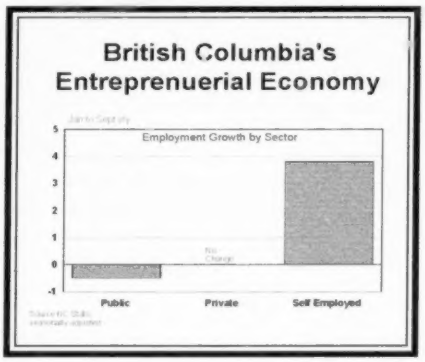
The BC economy can be characterized as a dichotomy between internal and external markets. A lacklustre US economy and the softwood lumber dispute has BC exports in the doldrums, down 14 per cent year-to-date. BC households, however, are driving much of the economy in the wake of historically low interest rates. Retail sales are up 6 per cent year-to-date, with automobile sales cresting a 16 per increase. In fact, enough automobiles will be purchased in BC this year to provide one for every eight households.

Consumers are also buying homes. MLS sales are forecast to reach 81,000 units this year, the highest level in a decade. In addition, BC housing starts will reach 21, 400 units this year and 22,500 in 2003. Accompanying all this home buying activity is spending on furniture, appliances, landscaping etc. Renovation spending will also grow by 7 per cent in 2002, to nearly 3.6 billion, bolstered by homebuyers making desired modifications to their homes.

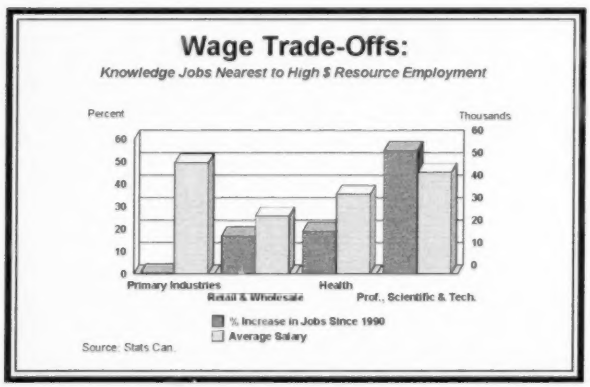
BC's economic output will near 1.6 per cent in 2002, about half the national average, and rise 2.6 per cent in 2003 on the strength of a further US recovery. Employment growth will remain sluggish until the spring of 2003, with a softwood lumber agreement being key to many of BC's resource communities. During the first three quarters, employment growth in the private sector has been stagnant. The current environment of government belt-tightening has contributed to a 0.5 per cent decline in public sector employment over the same period. The only significant growth this year has been in self-employment, where the number of self-employed individuals has climbed 4 per cent in the first nine months of the year.

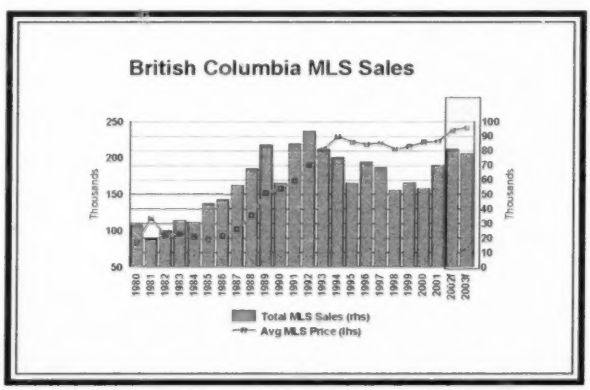
Self-employed workers in the province have a significant impact on the overall economy, accounting for 20 per cent of all BC jobs. In fact, small business is a key growth area. Nearly 28 per cent of provincial GDP is derived from small business. This is not surprising when you consider that 98 per cent of all business in BC is small business, representing 58 per cent of private sector employment. In the wake of weak intraprovincial migration, BC's entrepreneurial economy is key to provincial growth.

It is no coincidence that many self-employed individuals are organized around knowledge work. Over the past decade, professional, scientific, and technical employment has increased over 50 per cent, making it the highest growth sector. Whereas, employment in primary industry, a traditional economic driver in the province, has remained flat. Not only is the concentration of employment growth in the knowledge sector important because it follows the trajectory of the world economy, it is also the only sector that provides wages near that of the primary sector.



The low interest rate environment should continue into the summer of 2003. With consumer confidence remaining high, BC households will continue spending through the holiday season and well into the new year. Rising interest and mortgage rates in the second half of 2003 will signal a robust US economy and increasing demand for BC goods and services. The impact on BC's housing market will be twofold: Low mortgage rates will continue to unleash pent-up demand for housing, particularly in the urban centres, and a recovering US economy will provide additional demand for BC exports, thereby created more jobs and further bolstering housing demand.





Forecast Summary

	2000	2001	2002F	%Chg.	2003F	%Chg.
Resale Market Forecast						
MLS-Greater Vancouver						
Single-Detached	11,363	14,735	17,500	18.8%	16,500	-5.7%
Townhouse	3,075	4,383	5,200	18.6%	4,950	-4.8%
Apartment	6,034	8,791	12,250	39.3%	11,550	-5.7 %
MLS-Fraser Valley						
Single-Detached	5,799	7,931	10,300	29.9%	9,900	-3.9%
Condo	2,981	4,148	5,300	27.8%	5,000	-5.7%
MLS Total Sales	29,252	39,988	50,550	26.4%	47,900	-5.2%
Single-Detached	17,162	22,666	27,800	22.7%	26,400	-5.0%
Condo	12,090	17,322	22,750	31.3%	21,500	-5.5%
Average MLS Price						
Greater Vancovuer						
Single-Detached	$378,130	$369,268	$394,000	6.7%	$402,000	2.0 %
Townhouse	$232,392	$232,434	$248,000	6.7%	$255,000	2.8%
Apartment	$182,027	$176,730	$196,000	10.9%	$201,000	2.6%
Fraser Valley						
Single-Detached	$245,977	$251,380	$269,000	7.0%	$275,000	2.2%
Condo	$143,031	$141,496	$152,500	7.8%	$156,000	2.3%
New Home Market Forecast						
Starts						
Vancouver CMA						
Total	8,203	10,862	12,800	17.8%	14,000	9.4%
Single-Detached	3,132	3,512	5,200	48.1%	5,500	5.8%
Multi-Family	5,071	7,350	7,600	3.4%	8,500	11.8%
Abbotsford CMA						
Total	405	418	1000	139.2%	1,030	3.0%
Single-Detached	381	412	560	35.9%	580	3.6%
Multi-Family	24	4	440	**	450	2.3%
Average Price						
Vancouver CMA						
Single-Detached	$419,625	$449,444	$457,000	1.7%	$465,000	1.8%
Townhouse	$238,865	$234,909	$259,000	10.3%	$264,000	1.9%
Apartment	$247,922	$263,171	$275,000	4.5%	$279,000	1.5%
Abbotsford CMA						
Single-Detached	$202,051	$204,486	$222,000	8.6%	$229,000	3.2%
Townhouse	$140,514	$138,195	$151,000	9.3%	$155,000	2.6%
Apartment	$81,319	$75,315	$89,000	18.2%	$92,000	3.4%

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